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FARMERS' NEWSLETTER

April 79/L-9

Livestock

Farrowings Up More Than Expected

As the breeding season for the late fall pig crop gets underway, you may be wondering whether to maintain production, expand it, or cut back a bit.

Hogs have brought good profits for the past year or two, but the Hogs and Pigs report issued by USDA in March indicated a major expansion may be in the offing.

The report, covering the 14 major hog producing States, indicated that sow farrowings, compared with a year earlier:

- rose 16 percent during December through February;

- may be up by 24 percent during March through May;

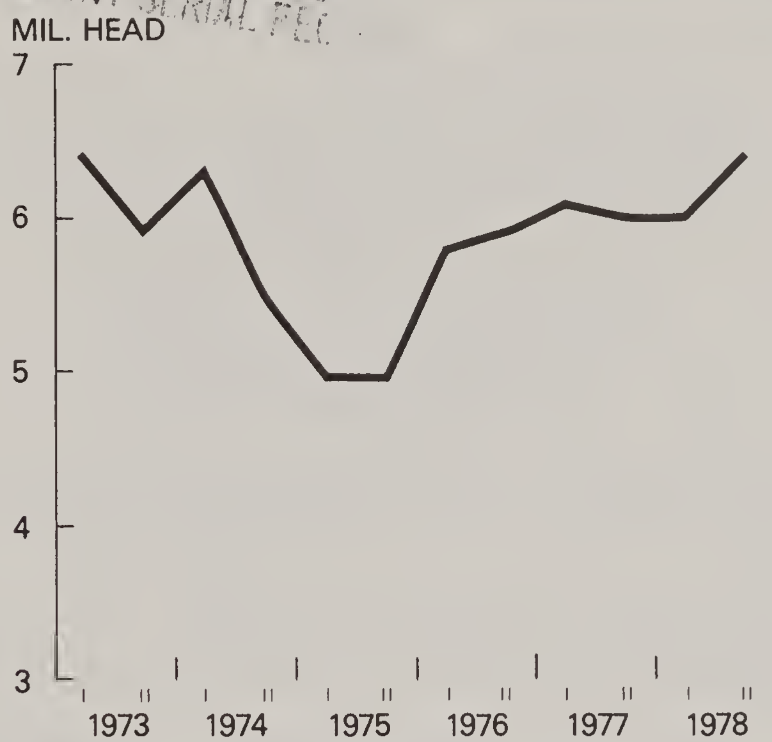
- may be up 19 percent for the early fall crop (June-August).

The 14 States account for about 85 percent of all hogs produced in the United States, so a rapid expansion in pork production can be expected during the rest of 1979 and early 1980.

The actual expansion may be bigger than we earlier thought, despite the cold Midwest winter. The December 1978 Hogs and Pigs report indicated that farrowings might climb about 15 percent through May 1979. Many analysts doubted that these intentions, which turned out on the conservative side, would be met.

Now, the larger than expected

SOW FARROWINGS



I = December through May. II = June through November.

farrowings so far this year, following the 10-percent larger September-November pig crop mean two things: Hog slaughter will be up for the rest of 1979, and prices will fall.

Commercial hog slaughter during the second quarter (spring) may be up 10 to 12 percent, based on the September-November pig crop. Third quarter slaughter (summer) could be 16 to 18 percent over a year earlier as a result of the increase in the December-February pig crop.

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Principal contributors to this issue: Robert D. Remmele (202) 447-8143 and Richard J. Crom (202) 447-8470.

If the indicated rise in March-May farrowings materializes, look for fourth quarter slaughter to rise more than 20 percent above the last quarter of 1978.

Prices Will Slip

Increasing pork production in March reduced prices by about $10 from a high near $55 per hundred pounds in early February.

You can figure on an average near the mid $40's per hundred pounds during the second and third quarters, and the low $40's by the fourth quarter.

Rising pork and poultry production will push hog prices lower throughout the year. Fortunately for the hog producer, that decline will be limited, thanks to declining beef production, which will help offset the larger supplies of pork and poultry. Higher beef prices also should encourage consumers to substitute more pork for beef.

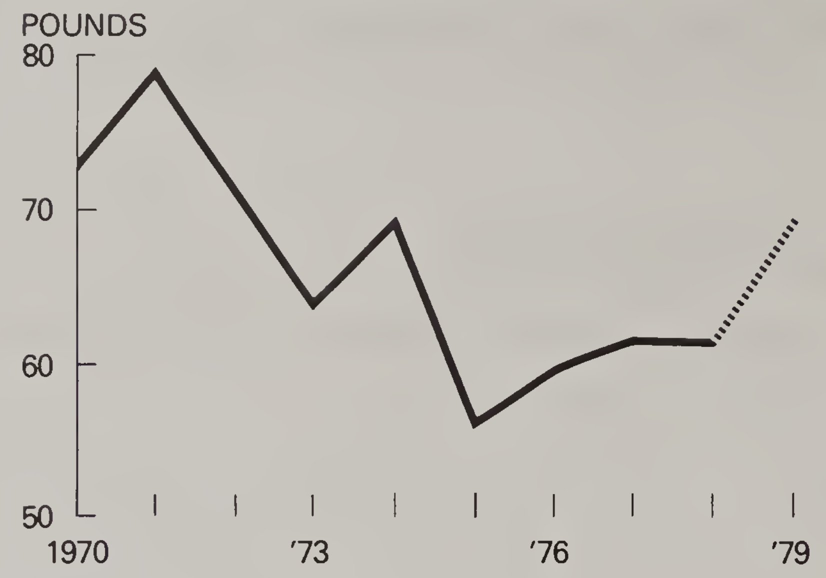
This year, Americans are expected to consume about 69 pounds of pork per person. That's the most since 1974, when 69.1 pounds were consumed per person. This is still 10 pounds below per capita consumption in 1971, but 13 pounds over the 1975 level.

BARROW AND GILT PRICES, 7 MARKETS

Month	1977	1978	1979
		$ per cwt.	
January	39.52	45.99	52.13
February	40.18	48.83	54.42
March	37.53	47.50	[1] 49.50
April	36.97	46.04	
May	41.79	49.17	
June	43.86	48.31	
July	45.76	46.78	
August	44.38	48.77	
September	41.40	50.00	
October	40.83	52.23	
November	39.33	48.36	
December	43.99	49.57	

[1] Estimated.

PER CAPITA CONSUMPTION OF PORK



1979 projected.

Production Costs Increasing Moderately

Although returns probably will stay below year-earlier levels for the rest of 1979 and early 1980, production costs are not expected to increase much from a year ago.

Feed costs should stay near 1978 levels, although they will depend heavily on the size of this year's feed grain and soybean harvests. In January, farmers indicated they planned to plant 121 million acres to feed grains in 1979, about 1-1/2 million less than in 1978.

However, corn plantings could rise about a million acres. Farmers also said they'd increase soybean acreage by about 4 percent. Our Prospective Plantings report to be issued on April 16 will update these intentions and provide a further clue to actual plantings this year. Recent price relationships favor some increase in soybean acreage with a corresponding reduction in feed grain acreage.

Even if planting intentions are revised substantially, there'll be an adequate supply of grain for livestock feeders if yields are normal.

However, soybeans could be in relatively tight supply. Exports and

domestic use are expanding, and there is still some uncertainty about the size of the Brazilian crop.

Outlays for other production items probably will rise with the rate of inflation. However, the cost of fuel, lubricants, and electricity will climb faster than other costs due to mounting world oil prices, particularly in light of price hikes announced in late March by the Organization of Petroleum Exporting Countries.

Breaking Even Depends on Size

If hog prices slip to the low \$40's and production costs increase moderately, will you be able to break even? Since production costs vary widely by size of operation, part of the answer for you lies in studying the feeding budgets of different size operations.

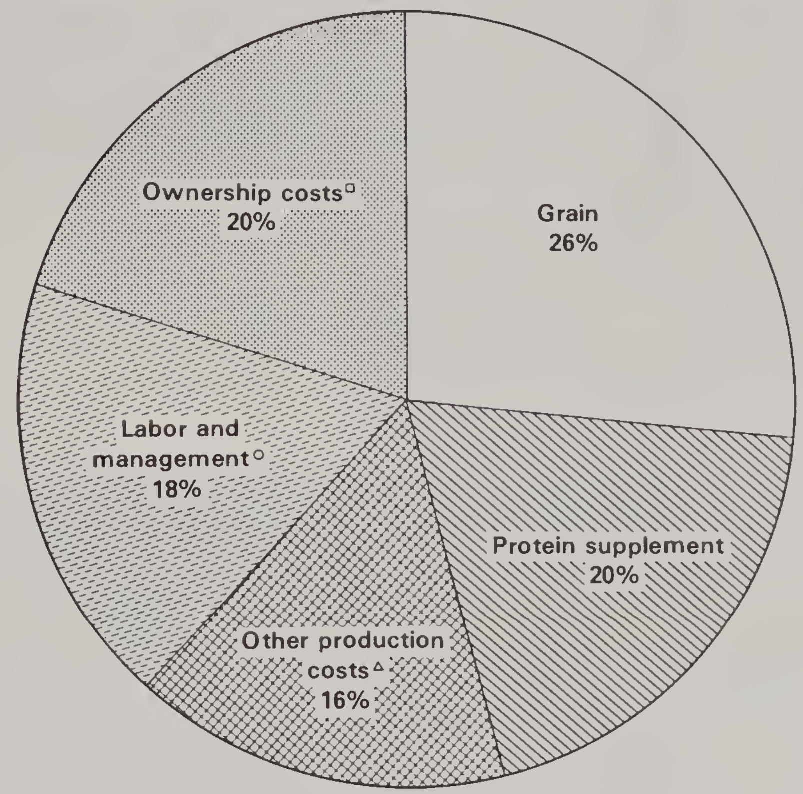
Feed costs per hundredweight of hog sold remain nearly constant for all sizes of production units. But ownership costs--investment, interest, taxes, and insurance--differ with an operation's size, yielding a wide range of returns to operator and family labor and management.

In the short run, producers must only cover cash costs--immediate out-of-pocket outlays for items like feed, fuel, and marketing--to stay in business. In any one year, your family living expenses may be covered by other enterprises if you have other livestock or crops. Otherwise, operator labor must be covered along with out-of-pocket expenses.

But over the long haul, total expenses, including noncash (postponable) costs, also must be covered.

Cash costs are estimated at about \$34 per hundred pounds of hogs sold this year from all sizes of operations. Thus, even with falling hog prices, producers should be able

GRAIN BIGGEST COST FOR FARROW-TO-FINISH PRODUCERS THIS YEAR



△ Includes veterinary and medicine, feed processing, bedding, livestock hauling, marketing, fuel, lube, electricity, machinery and repairs, miscellaneous supplies, interest on operating capital, and farm overhead. ○ Includes operator and family labor, hired labor, and management. □ Includes replacement reserve, interest, taxes, and insurance.

to cover their cash costs of production.

However, it's the noncash costs that vary widely with farm size. Noncash costs for producers selling 300 head a year are about \$18 per hundred pounds sold. But for operators selling 5,000 head, noncash costs work out to around \$11.

That brings total cash and noncash costs to about \$52 for producers marketing 300 head a year, but only \$45 for large volume operators selling 5,000 hogs annually.

This means that farmers who sell 300 head a year will be able to cover short-run cash costs, but not the total cost of production during late 1979 and early 1980. On the other hand, those selling 5,000 hogs will not only cover cash costs but nearly cover total costs as well.

What the Figures Imply

- Don't push the panic button--

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you should still cover out-of-pocket costs. But you'll have to be especially careful to realize all the production efficiencies you can this year.

o Use facilities fully if returns are expected to exceed cash costs. This will lower fixed costs per unit of production. (Use the planning budget we included in the January Livestock Newsletter. If you didn't get a copy, write us--we'll be happy to send one to you.)

o If you've planned to expand your facilities, you'll want to do some close figuring in view of prospects for larger supplies and lower prices.

COSTS OF PRODUCING HOGS IN FARROW-TO-FINISH ENTERPRISES

	1977	1978	1979
	Dollars per hundredweight sold		
Cash	33.09	32.77	33.88
Noncash			
Short run	6.90	7.28	7.70
Long run	14.46	15.73	17.19
Total			
Short run	39.99	40.05	41.58
Long run	47.55	48.50	51.07

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Mark your calendar for the following features scheduled through May that will be of special interest to livestock producers:

April 19	Cattle on Feed
April 20,21,22	Cattle on Feed Analysis
April 23	Grain Stocks
April 26	Soybean Situation
May 4,5,6	Soybean Situation
May 8	Feed Situation
May 14	Cattle on Feed
May 21	Red Meat Output
May 22	Livestock Situation
May 30	Retail Meat Prices

(Features are subject to change. In some areas, it may be necessary to dial 1-800-424-7964.)

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